

NATURAL RESSOURCES AND THE REPUBLIC OF CONGO: We're rich!! Or Are We?

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ABSTRACT

This paper recommends a way for testing the proposition that countries well endowed in natural resources (e.g. oil, gas, diamonds or gold) tend to perform poorly economically and politically. The paper first reviews whether the qualification of natural resources abundance applies to Congo. In the second part, criteria to the curse are analyzed. Next, a review of the impact of natural resources on the economy is undertaken before addressing the socio-political impact. Finally, a prescription is proposed for the Republic of Congo from both theoretical and practical solutions. We argue that in the case of the Republic of Congo the negative impacts of natural resources can be mitigated via sound macroeconomics policies. Our empirical findings indicate that referring to “ownership” curse might be more appropriate than “resource” curse when considering the Republic of Congo. It is the conclusion of this paper that there is no determinism at play for petroleum-rich nations.

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TABLE OF ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
bCFA	Communauté Financière de l’Afrique (billions)
CFA	Communauté Financière de l’Afrique
DCF	Discounted Cash Flow
Dptb	Death per thousand births
GDP	Gross Domestic Product
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
IMF	International Monetary Funds
LIE	Low Income Economies
LMIE	Lower Middle Income Economy
NGOs	Non Governmental Organizations

OPEC	Organisation of Petroleum Exporting Countries
PWYP	Publish What You Pay
ROC	Republic of Congo
UDHR	Universal Declaration of Human Rights
UNGA	United Nations General Assembly
US	United States
WB	World Bank

INTRODUCTION

“I call petroleum the devil’s excrement. It brings trouble...Look at this locura-waste, corruption, consumption, our public services falling apart. And debt, debt we shall have for years.” Juan Pablo Perez Alfonso ¹

The proposition that countries well endowed in natural resources (e.g., oil, gas, diamonds or gold) tend to perform economically or politically poorly has by now become so familiar that merely writing about it makes you feel like part of the problem. The extensive studies done on the subject seem to confirm, in the face of common sense, that having mineral abundance strongly hinders both economic development and political stability in developing countries (Gelb and Associates, 1988; Sachs and Warner, 1995; Auty, 2001). The republic of Congo is a case in point. The Literature, however, falls short on at least one level.

Few papers aside (Sarraff & Jiwanji, 2001; Sala-I-Martin and Subramanian, 2003; Luong, 2003; Stevens, 2003), the better part of the Literature merely offers a diagnostic on the “resource curse” condition without proposing clear solutions on how to get out of it or avoid it altogether.

This paper first reviews natural resources abundance in Congo. In the second part, criteria to the curse are analyzed. Next, a review of the impact of natural resources on the economy is

¹ Venezuelan founder of the Organisation of Petroleum Exporting Countries (OPEC). The quote is taken from The Economist, Sept 25th-Oct 1st 2004, “Tackling the oil curse”

undertaken before addressing the socio-political impact. Finally, a prescription is proposed for the Republic of Congo from both theoretical and practical solutions.

NATURAL RESOURCES ABUNDANCE

Since its independence from France in 1960, the Republic of Congo (ROC) has had a very unstable political scene. Military coups, ethnic rivalries and the violent assassinations of presidents have dominated the country. This has inevitably led to a somewhat schizophrenic economy with metrics being at times encouraging, but for the better part of the country's history downright suspect. With estimated proven reserves of 1,5 billion barrels and 3,2 trillion cubic feet of natural gas², a population equalling roughly three (3) million, and a 342,000 square kilometres³ territory, the ROC had everything it needed to become a "Little Switzerland"⁴. However, the impact from natural resources tells a much different story.

But, before going any further on discussing whether the country received a "blessing" or a "curse" from its natural resources, it seems appropriate to review some of the metrics available to define natural resources abundance itself. Some scholars have argued that the level of export dependence presents a good indication of natural abundance (Sachs & Warner, 1995). Others believed the per capita land area metric to be sufficient (Wood & Berge, 1994) while yet another criteria combining export orientation and population size has been used in some studies (Syquin & Chenery, 1989). Clearly, there is no general consensus on how you define natural abundance. Most likely, a combination of all the metrics mentioned above should provide enough elements to make a decision. Nevertheless, for many small⁵ developing countries such as Gabon or the ROC, oil export levels and population size should suffice to classify them as natural abundant countries.

This next section looks at some of the issues and pitfalls resulting from mineral abundance. It focuses on some of the economical factors associated with oil-exporting countries. Some of these factors are both internal and external to the economy (Mikesell, 1997; Auty, 1998).

² This ranks Congo as the fifth sub-Saharan country for oil reserves and third for natural gas.

³ About the size of the state of New Mexico in the US

⁴ Pascal Lissouba (President from 1993-1997) used the metaphor in 1992 as he was campaigning to become the next president of Congo.

⁵ These countries have populations of 3 million habitants or less.

CRITERIA TO THE CURSE

To determine whether the spell has been cast on Congo we look at six main criteria: the percentage of oil in GDP, the percentage of hydrocarbons in merchandise exports, infant mortality, life expectancy, illiteracy rate and the HDI index.

Table 1. Republic of Congo: Central Government Operations, 2000-03					
	2000	2001	2002	2003	
				Proj.	Est.
	(In percent of GDP)				
Domestic revenue	26.3	30.7	27.2	28.0	29.6
(excluding grants)					
Oil	20.3	21.1	18.9	17.8	20.7
Non-Oil	5.9	9.7	8.3	10.2	8.9

Sources: Congolese Authorities; and IMF staff estimates

Percentage of oil in GDP

One common feature among most developing countries highly endowed in natural resources is their high hydrocarbons (or mineral) percentage in GDP (see Table.1). Unfortunately, Congo is no exception. This takes flexibility away from the Congolese economy along with its ability to enhance economic diversification⁶. During the 1980s, Congo was classified as a Lower Middle Income Economy (LMIE) with a GDP per capita at 981 in constant 1995 (see Box.1). The average was about 30 points above that displayed by Lower Middle Income Economies and over 600 points that of Low Income Economies (LIE).

⁶ The issue is discussed further when solutions to the curse are reviewed

The following decade shows a decline in GDP per capita in Congo while the other two groups show net improvements with LIEs rising from 371 to 430 and LMIEs jumping from 957 to 1129. Furthermore, the Congolese GDP per capita growth has dropped from +3.8 to -2.1 during the period and although LIEs and LMIEs also dropped, the slide in Congo was a lot more dramatic. One explanation is the three (3) civil wars suffered during the 1990s in Congo.

Box 1						
(Period averages in units indicated)						
Indicator	Congo		Low Income Economies		Lower Middle Income Economies	
	1980s	1990s	1980s	1990s	1980s	1990s
Economic Performance						
GDP per capita (constant 1995 US Dollars)	981	839	371	430	957	1129
GDP per capita growth (annual percent change)	3.8	-2.1	2.4	1.0	2.3	1.7
Gross Domestic Investment (in percent of GDP)	33	25	20	22	25	26
Fuel export (in percent of merchandise exp)	88	88	40	20	13	12
Sources: World Bank Indicators database; Congolese authorities; and IMF staff estimates						

Percentage of hydrocarbons in merchandise exports

The second criteria used to diagnose the curse is the extremely high level of fuel export in merchandise export. In Congo, the level of fuel export remained constant at 88 percent while LIEs and LMIEs made an effort to either cut or maintain a low level of fuel share in merchandise export. For example, LIEs went from 40 percent to 20 percent and LMIEs kept around 13% (see Box.1). Diversification efforts away from oil are analyzed later.

Infant mortality rate

The tendency for the infant mortality rate is identical to that observed in the management of fuel exports. Basically, the Congolese rate remains fairly the same with roughly 80 deaths per 1000 live births (dptb) for the period. Here again, the LIEs and LMIEs display real progress with declines from 103 dptb to 87 dptb and 49 dptb to 39 dptb respectively (see Box.2).

This reflects both the low investments made by the Congolese authorities in the health sector and the poor maintenance of existing infrastructures (e.g. Russian hospitals built during the 1960s).

Box.2						
(Period averages in units indicated)						
Indicator	Congo		Low Income Economies		Lower Middle Income Economies	
	1980s	1990s	1980s	1990s	1980s	1990s
Social Indicators						
Adult illiteracy rate (in percent of 15 and above)	42	27	50	42	25	18
Infant Mortality rate (per 1000 live births)	86	82	103	87	49	39
Life expectancy at birth (in years)	51	51	55	58	67	68
Sources: World Bank Indicators database; Congolese authorities; and IMF staff						

Life expectancy

Yet another dimension of the diagnostic to the curse lies in the life expectancy at birth. The figures (see Box.2) reveal that throughout the 1980s and 1990s, the average Congolese has not gain a single year on his life expectancy. The situation is not that much better for LIEs and LMIEs during the period. For the ROC, it means that the oil windfalls from the second oil shocks did nothing to improve the living standards of the average citizen. This is similar to the Nigerian experience where oil revenues per capita went from US \$33 to US \$325 between 1965-2000 and yet the per capita GDP remained at \$245⁷.

There are two possible explanations for this lack of improvements in life expectancy. The first one is the bias caused by the impact of the HIV/AIDS virus. Although many patients die rapidly due to lack of affordable medicine, people not infected by the virus tend to live well over the 51 year-life expectancy. As a consequence, the average has remained the same when in reality people live well beyond this age.

The second reason is that in many African developing countries, a large portion of the rural population tends to rely too much on “traditional medicine” and often refuse to use western medicine for all sorts of illness.

Illiteracy rate

Illiteracy rate is one area where the ROC has shown very encouraging figures (see Box.2). The percentage of illiterate people age 15 and above declined from 42% in the 1980s to 27% in the 1990s. In this case, one might read decent capital investments from authorities. In reality, individuals fed up with inappropriate teaching facilities and/or Marxist-Leninist approach to education started their own private schools with great success. The experience was reproduced by many and private schools adopting the French education system flourished.

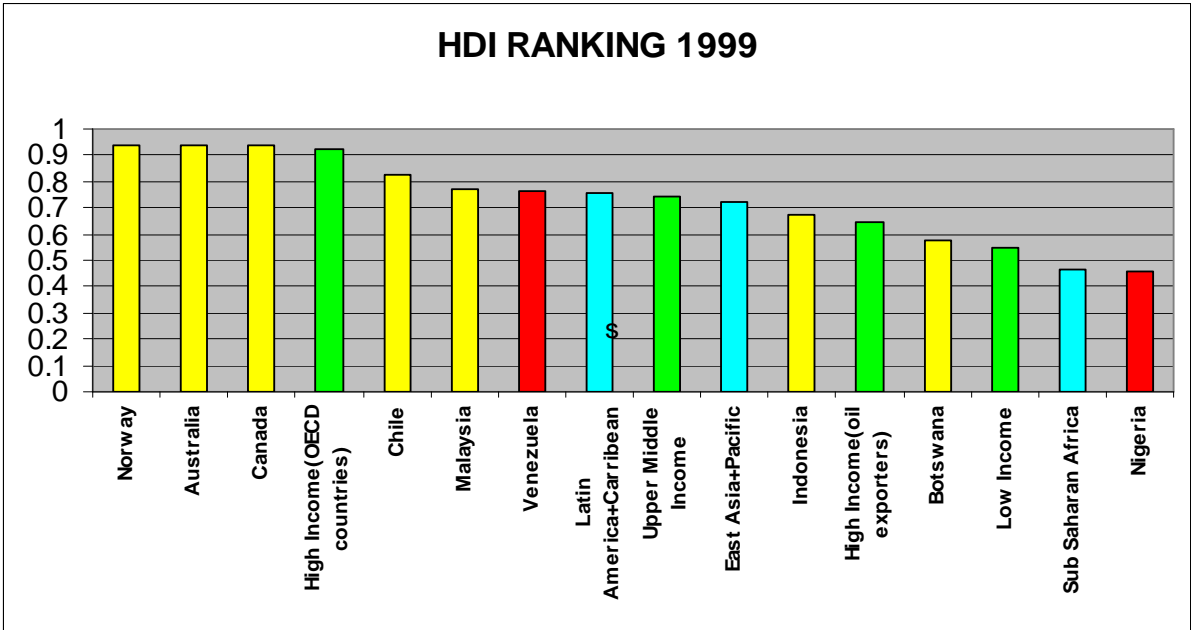
⁷ See IMF Working paper, Addressing the Natural resource curse : An illustration from Nigeria

Low-Income economies also experience a slight decline, but the illiteracy level remains considerably high at 42%. One possible explanation is the limited access to education for women in many LIEs and the role played by religion.

Human Development Index (HDI)

The Republic of Congo falls in the Sub-Saharan Africa category and ranks among the lowest with an HDI of about 0.45 (see Figure.1). The index is a combination of some of the factors discussed earlier and we have seen how for all of them, Congo has performed poorly. Countries like Norway or to a lesser extent Botswana managed an HDI well over 0.5.

Figure.1



Source: Energy Economics-The Tools, P. Stevens class notes

The various metrics previously analysed have shown that the curse has cast its spell on the Republic of Congo. This next section investigates how the spell is cast by reviewing some of the transmission mechanisms to the curse. We find some of the causes to the curse to be exogenous while other causes present a more endogenous aspect.

NATURAL RESOURCES AND THE ECONOMY

Natural Resources and growth performance: A closer look at the Sachs & Warner study

To what extent did the natural resources of Congo influence its economic performance?

A study by Sachs & Warner (1995) revealed a negative relationship between high natural resources and growth rates and basically concluded that countries with substantial resources grew slower, at about one (1) percent per year during 1970-89, than poorly gifted countries. However, the methodology used to conduct the study raises a myriad of issues.

First, Sachs & Warner (1995) view Natural Resources as the main determining factor to growth and in the process quickly dismiss the other seventy (70) variables playing a role (Doppelhofer, Sala-I-Martin, & Miller, 2003).

Sala-I-Martin & Subramanian (2003) offer an interesting econometric specification approach with the following equations:

$$\text{Growth}_{1970-89} = \mu + \beta \text{Conditioning Variables}_i + \phi \text{Volatility of Prices}_i + \delta \text{Overvaluation of Exchange Rate}_i + \gamma \text{Institutional Quality}_i + \lambda \text{Natural Resources}_i + \xi_i \quad (1)$$

$$\text{Institutional Quality}_i = \eta + \nu \text{Conditioning Variables}_i + \theta \text{Volatility of Prices}_i + \rho \text{Overvaluation of Exchange Rate}_i + \tau \text{Instruments for Institutional Quality} + \tau \text{Natural Resources}_i + v_i \quad (2)$$

The variables selected in both equations are those believed to have the most direct impact on growth and the study argues that "...in aggregate, some natural resources appear to have a strong, robust, and negative effect on growth by impairing institutional quality. Once institutions are controlled for, there is either very little effect of natural resources on growth or even a positive effect." Thus, Sala-I-Martin & Subramanian (2003) view the quality of institutions as the main factor to growth and only agree to an indirect relationship between natural resources and growth performance.

Second, Sachs & Warner (1995) present a simplistic cause and effect approach to Natural Resources and growth. The example provided by Davis & Tilton (2003) illustrates the matter

quite well. They explain that when the percentage of people leaving home with umbrellas increases, so does the probability of having rain later in the day. However, people carry umbrellas based on forecasts and this attitude alone does not make the rain fall that day. Indeed, natural resources can have an impact on growth but it remains one of several elements coming together for the curse to cast its spell.

Third, Sachs and Warner (1995, 1997) omit to consider the issue of ownership structure or the time period (1970-89) covered in their studies. As a result, they fail to consider that poor economic growth may not be due a high level of natural resources, but rather to very poor and myopic management from the decision makers. In fact, the omission is quite understandable when one considers that pretty much across the entire literature, natural resources are state-owned and often centrally controlled during the period considered (Beblawi & Luciani, 1987; Karl 1997; Auty 2001). There is a strong possibility that a change in ownership structure could bring about better fortune with competent private actors in the Republic of Congo which has had state-owned resources ever since its independence in 1960.

Finally, there is historical evidence to undermine the study even further. For example, a large number of OECD countries such as the US or Canada have had very sustained growth period while developing resource based activities (Blomstorm & kokko, 2003). Thus, the study should merely caution all extracting countries, but can not predict the outcome of that extraction.

This next section looks at two essential transmission mechanisms, namely revenue volatility and Dutch disease and their implications on the Congolese economy.

Revenue Volatility

Along with production and investments structures within the Congolese economy, price volatility can have, without a stabilization fund, negative effects on the debt management and budget deficits. A study by Mikesell (1997) over 1972-1992 revealed that trade volatility for countries with large shares of primary export was two to three times greater than industrial countries in the same period. Business cycles are largely to blame for the fluctuations in revenues and prices can vary 30% or more within one or two years (Davis & Tilton, 2003).

In Congo, oil revenues increased from 213.1 billions CFA in 1996 to 296.9 the following year (see Table 2). This is accounted for by the introduction in 1996 of production sharing contracts in Congo. In 1998, oil revenues plummeted to 137.8 billions CFA due to the 1997 civil war. Between 1999 and 2000, oil revenues jumped from 275.6 bCFA to 468.1 bCFA.

Table 2. Republic of Congo: Central Government Operations, 1996-02

	1996	1997	1998	1999	2000	2001	2002
	(In Billions CFA)						
Revenue	362.0	387.7	263.0	390.6	611.3	631.8	575.4
(including grants)							
Revenue	357.7	386.3	259.4	384.3	604.5	628.1	571.7
Oil Revenue	213.1	296.9	137.8	275.6	468.1	430.8	397.5

Sources: Congolese Authorities; and IMF staff estimates

Since Congolese Authorities have not yet elected to have a stabilisation fund, windfall gains have affected the non-tradable sector as relative prices have risen during the recent boom years. Furthermore, during the non-boom years such as 1986 the gross domestic savings dropped to US \$288.78 millions as opposed to US \$671.33 millions the previous year (ADB, 2004). As a consequence, the non-boom years have resulted in budget deficits during those years.

Finally, the ROC has often relied on multinationals, especially TotalFinaElf to pay local salaries. The money borrowed by the country would be reimbursed in oil equivalent. The practice has often turned against Congo as the agreement was made at a time when oil prices were high. When oil prices fell, so did revenues and reimbursement became extremely difficult. The IMF has tried to put a stop to the practice with limited success.

Dutch Disease

Simply put, Dutch Disease can be defined as the failure for resource abundant economies to promote a competitive manufacturing sector (Usui, 1997; Auty, 1998). Others (Stevens, 2003) also present it as the contraction of the non-hydrocarbon traded sector following a real

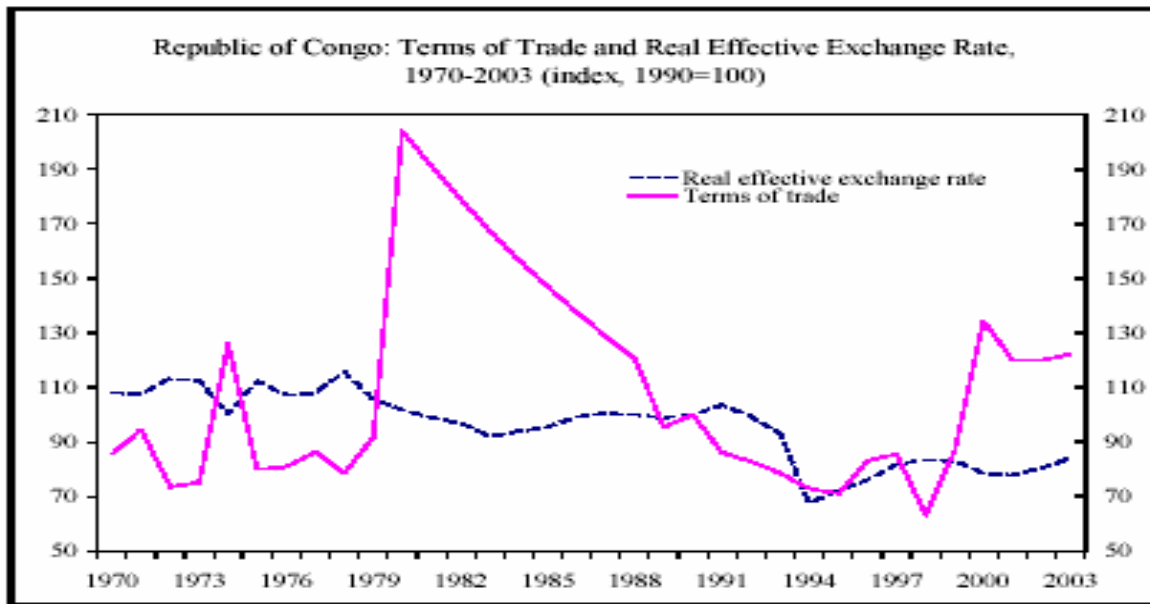
appreciation of the exchange rate. The Dutch Disease phenomenon has proved difficult to establish in several economies and has even led some authors to question its very existence. McMahon (1997), for example, found no substantive evidence of the Dutch Disease effect. One possible explanation to the difficult diagnostic is the meaning which has become both wide and narrow (Stevens, 2003). Indeed, some countries may well suffer from different issues, but because they are resource rich, the problem will be viewed as Dutch Disease. In Nigeria, for example, Sala-I-Martin & Subramanian (2003) believe that an evidence of waste and not a case of Dutch Disease can explain poor economic performance. The waste is a direct consequence of a rapid accumulation of capital (roughly 6.7% per year for Nigeria).

Table 3. Republic of Congo: Central Government Operations, 1996-01

	1996	1997	1998	1999	2000	2001
	(In Percentage GDP)					
GDP at Market Prices	100.0	100.0	100.0	100.0	100.0	100.0
Oil	42.4	49.2	36.5	53.4	65.5	56.7
Non-Oil	57.6	50.8	63.5	46.6	34.5	43.3
GDP at factor cost	95.6	97.8	95.7	97.5	97.7	96.2
Agriculture, livestock and fishing	7.6	7.9	9.2	7.2	4.4	4.9
Forestry	1.4	1.3	1.7	1.2	0.9	0.9
Petroleum sector	42.4	49.2	36.5	53.4	65.5	56.7
Other services	7.5	7.3	9.4	6.4	4.9	5.9

Sources: Ministry of Economy, Finance, and the Budget; and IMF staff estimates

Figure.2



Source: IMF country report No.04/232

Table 3 shows that between 1996-2001 the oil sector has increased in percentage GDP except in 1998 and 2001. Both cases result from civil wars in 1997 and extreme political unrest in 2000. The non-oil sector during the period has shown the opposite trend with increases in 1998 and 2001. The Agriculture sector has contracted severely since 1998 and reached lows of 0.9 percent of GDP in 2000 and 2001. The non-oil GDP over 2000-03 presents more encouraging signs with an increase for the period of about 10% on average (see Figure.2). Furthermore, consumer price inflation has been kept well under control and has displayed a significant decrease. There are two reasons explaining this fact. First, the issue of security of supply between Pointe-Noire and Brazzaville was dealt with effectively by the authorities following the unrest. Second, the national currency CFA⁸ is indexed on the Euro which behaved well over the period. However, even with a strong Euro contributing to the recent rise in terms of trade (see Fig.2 and Table.4) the real exchange rate still remains 10-15% below its pre-1994 devaluation level (IMF Country Report No. 04/232, 2004).

⁸ 100 CFA=0.15 euros

Table 4. Republic of Congo: Sources of Growth, 1980-03

	1990-94	1995-99	2000-03	1970-03
	(In billions CFA)			
Real GDP growth	-0.1	1.7	4.1	4.3
Factor accumulation 1/	2.1	1.8	2.5	3.3
Solow residual	-2.2	-0.1	1.6	1.0
Memorandum items:				
Non-Oil sector real GDP growth	-1.7	-2.8	10.3	3.3
Oil sector real GDP growth	3.8	9.1	-4.3	17.6
Terms of trade 2/	84.1	78.0	124.2	109.0
Real effective exchange rate 2/	92.7	79.3	80.2	95.6

Sources: Ministry of Economy, Finance, and the Budget; and IMF staff estimates

It is rather difficult to make an assertive statement on whether or not the Congolese economy did suffer from a case of Dutch Disease. Some sectors like agriculture have obviously taken a backseat within GDP percentage, but non-oil GDP increase was non negligible. Nevertheless, it could be argued that non-oil sector would have evolved at a much faster pace had more capital been provided to the sector. The contraction from the manufacturing and agricultural sectors is far from obvious given the available data on the country. Besides, even if the manufacturing sector did contract, the effects could be offset and not present long-term growth problems as long as competitive markets and conditions prevailed (Sachs & Warner, 1997; Stevens, 2003).

NATURAL RESOURCES AND THE SOCIO-POLITICAL IMPACT

Natural resources have clearly dictated the socio-political scene in the Congo to the extent that even a five year old understands the fiscal system of a production sharing contract. This

has translated into Corruption, Rent-Seeking and Civil wars. This next section discusses those impacts.

Corruption

It has been argued that the richer the industry, the higher the level of corruption. The energy industry with its capital intensive structure is a case in point and the level of corruption in the Republic of Congo offers a telling example. Politics in most African countries is driven solely on ethnicity and to gain a broader political base means going cross ethnic. The only way this can be achieved is for politicians to pour money and projects in villages they do not control. As a consequence, many politicians view oil revenues as the only way to “feed the beast” with no consideration for the “greater good”.

The 1999-2001 oil revenue discrepancy noted in the 2003 Article IV consultation (Country Report No.03/193, para.9) by the IMF reveals a shortfall of CFAF 174 billion. The identification was made possible with oil companies’ cooperation and the fiscal system of production sharing contracts. The authorities defended the discrepancy arguing that oil-back borrowing partly financed post-conflict reconstruction, security, humanitarian projects, elections and national reconciliation. In reality, war winners needed to pay Angolan troops who came to the rescue and consolidate their own militia. After the war, documents were found in the office of the deposed President in which he clearly asked one multinational oil company to deposit 60% of the royalties it owed Congo on a foreign Congolese state account and the remaining 40% in his personal Swiss bank account. We are far removed from the “harmless” corruption where embezzled capital is reinvested in the national economy.

Rent Seeking & Civil wars

Many argue that rent seeking activities and poor natural resource policies are at the very heart of the resource curse notion (McMahon, 1997; Auty, 1998). Sala-I-Martin & Subramanian (2003) describe a voracity effect explaining that Natural Resources generate rent which then encourages rent-seeking, corruption and impacts political economy as well as long-run growth negatively. The structure of the Congolese society (e.g. families, customs) often turns bureaucrats into rent-seekers because the concentration of wealth is in the public sector.

Furthermore, necessary reforms are often blocked by rent-seekers found in both outside and within the public sector.

When pushed to the extreme rent-seeking often translate into the complete collapse of institutions and can lead to civil wars. In the 1990s, the Republic of Congo suffered from three such conflicts which have been costly both on human lives and infrastructures.⁹ Collier & Hoeffler (2002) argue that the probability of a civil conflict in a resource poor country is around 0.5% whereas a country with natural resources to GDP share of 26% faces a probability of 23%. Oil rents were believed to be main reason for those conflicts although oil rents had to be coupled with ethnic rivalries to induce such events.

FROM ANALYSIS TO PRESCRIPTION

The propositions in the academic literature to mitigate the negative impact of natural resources on the economy range from the unrealistic to the barely manageable. Here, we take a look both at the unrealistic and feasible solutions which could be implemented in the Republic of Congo.

Leave it in the ground

This is by far the most unrealistic of solutions in the academic literature and has been offered by Ross (2001) in his Oxfam study. Even though it is quite feasible, it remains simply unacceptable. On moral grounds, how do you justify the decision not to develop a natural resource when over 70% of the population lives below the poverty line? Developing natural resources means those in power will at least leave the “crumbs” to the rest of the population. Without oil revenues, the “crumbs” generated from the non-oil economy will go to those in charge of the country.

On simple financial grounds, DCF methodology suggests that the faster the development of a resource the better despite the argument made by some economists that oil in the ground is worth more than money in the bank. Thus, the proposition made by Ross (2001) is unacceptable on both theoretical and practical levels.

⁹ For an excellent discussion on this refer to Englebort, P., & James, R. (2003) *Primary Commodities and War: Congo-Brazzaville's ambivalent Resource Curse* available at www.pomona.edu

Stabilisation and oil funds

Oil funds can help stabilize growth and spending in the Congolese economy although more and more researchers (Davis et al, 2001) discuss the necessity of an oil fund. The underlying reasoning is that a country disciplined enough to have a fund would not need a fund in the first place. Sound fiscal policies would yield the objectives pursued by a fund. Iran and Venezuela, for instance, showed no such discipline and raided capital from their funds to fill holes in their annual budgets. Oil funds can definitely ease the budget management, but this should not be its primary objective. The major difficulty in setting up such a fund in Congo is that those benefiting from the absence of a fund (rent-seekers, corrupted government officials, etc...) will have to be in charge of setting up the fund. The advantage with Norway is that oil was discovered after highly developed institutions have been organized. Merely for future generation, a fund would be desirable especially when considering that oil is a non renewable resource. Moreover, funds have the capacity to insulate oil windfalls from the rest of the economy thus avoiding an increase in relative prices (Stevens, 2003).

Revenue Sterilization

The stabilization of revenues can be achieved via oil funds but it has been mentioned previously how difficult setting up a fund in Congo would be. In Botswana, for example, revenue sterilization was accomplished successfully through sound macroeconomic policies and government was able to accumulate budget surpluses and channel the revenues into a fund. In Congo, one Minister of Energy proposed in the early 1990s to allocate revenues from some oil fields directly to the reimbursement of the national debt hence keeping money away from the economy and corrupted officials. The proposition was turned down by those same officials who deemed the project unrealistic. Rather, they elected to invest in domestic projects doomed from the start because recurrent expenditures were often left out by decision makers. The investments prevented the accumulation of foreign reserves. The so-called *Plan Quinquennal* launched in 1979 during the oil boom period lasted five years and contained a series of poorly analysed projects.

Revenue Distribution

The idea of distributing oil revenues directly to the population seems like the natural thing to do and would be very popular in a country where oil has hurt populations more than it has helped. But, it would also be a very irresponsible thing to do and one would quickly run into trouble on electing who would be eligible to receive funds. Should citizens be given their share when their turn eighteen? Should women receive more because they have been consistently “left out” of the economy? The decision is rather complex. In any case, receivers must present viable economic projects. Moreover, distributing revenues to the populations means less revenue for governments to build roads, hospitals or schools (Sala-I-Martin & Subramanain, 2003). Considering the poor job done so far by the authorities, populations might be better off with some money in the bank.

Diversification

Although highly desirable, the diversification efforts have proved difficult so far despite encouraging efforts recently made by the government. The strategy has been the development of new infrastructures in the north with new roads and the new Ollombo International airport. This, compounded by the new Imboulou dam project, is supposed to facilitate water and electricity distributions and improve the agricultural sector. IMF optimistically reports that non-oil revenue is expected to grow at about 0.5% of GDP per annum (IMF Country Report No. 04/232, 2004). There have also been efforts by the government to promote the private sector by injecting revenues directly in the sector. However, in Congo people behave as if private and public spheres were one and the same. If the public sector is managed by a few powerful political leaders, the private sector is often left in the hands of their kin. Whether the Republic of Congo can be changed to a “non-oil” economy remains highly disputable. Nevertheless, achieving the diversification would allow the national economy greater flexibility to respond to both internal and external shocks.

Transparency and Accountability

Common sense might suggest that democracy should help remove corruption and rent-seeking via transparency measures. Stevens (2003) argues that while there is a place for transparency, it remains only a necessary condition to remove corruption. Besides, countries like Indonesia,

Botswana or Chile were not democracies yet managed their natural resources successfully. Nevertheless, programs like PWYP could shed some light on oil economies worldwide. This does raise one critical issue: How do you reconcile the NGOs drive for the Energy Industry in developing countries to “Publish What You Receive and Pay” with National Sovereignty and authoritative governments? The issue was at the heart of an essay contest won by Bede Nwete from Dundee University. He argues that since most developing countries consider in their constitutions that sovereignty lies with the people and the preamble to the Universal Declaration of Human Rights (UDHR) 1948 enjoins that: “every individual and every organ of society to strive to promote respect for these rights and freedoms by progressive measures, national and international” the tension is partially resolved. It becomes completely resolved when one considers the Article 1 of the United Nations General Assembly (UNGA) Resolution 1803 (xvii) of 14th December 1962 on the State permanent Sovereignty over Natural Resources which provides that: “The right of Peoples and Nations to permanent sovereignty over their natural wealth and resources must be exercised in the interest of their national development and of the wellbeing of the State concerned.”

Unfortunately, the PWYP program presents one major flaw with power still remaining within the State and oil companies afraid to lose business from their host State if they do publish what they pay. The Congolese authorities have made it clear to multinationals oil companies that publications would translate into a breach of contract. As a consequence, transparency and accountability has remained difficult to improve as evidenced by the 1999-2001 oil revenues discrepancy mentioned above. There is a risk that rogue companies will move in to fill the gaps left by multinationals obeying their conscience.

CONCLUSION

Natural Resources in the Republic of Congo have had a very negative impact on the economy and a disastrous one on the political scene as evidenced by the three civil conflicts in the 1990s. Criteria to the curse such as percentage of oil in GDP, percentage of hydrocarbons in merchandise exports, infant mortality, life expectancy, illiteracy rate and the HDI index have shown that the spell has indeed been cast on the Congolese economy. But, we have also seen that there is no determinism at play and that clear ways out of the “curse” exist. Non-oil revenue is expected to grow in 2004 at about 0.5% of GDP per annum proving that diversification attempts are starting to pay off. Some of the biggest challenges remain poverty

reduction, growth stabilization, external debt control and resistance to spending following the 2004 oil windfalls. The irreversibility of government expenditure has in the past severely hurt the economy when officials have given in the public pressure to share the benefits of oil booms via subsidies for projects doomed from the start. Instead, officials should focus on accumulating budget surpluses and observe prudent exchange rate management policies to control the exchange rate. One caveat to policy prescriptions of resource rich nations is that they require a case by case approach. What worked in Chile or Botswana might not yield the same results in the Republic of Congo. Nevertheless, they do provide a benchmark as to what the right policies might be. For policies to enhance economic growth, the abundance of natural resources is peripheral. What does matter is the management of the resources. In Congo, decision makers often think that crisis are temporary and oil booms everlasting when in fact a wiser policy would have it the other way. On rare occasions are issues dealt with the appropriate macroeconomic adjustments. Therefore, the qualification of “resource curse” for the Congolese economy is inappropriate and reflects intellectual laziness. Rather, the analysis suggests a problem of “ownership curse” that has prevented the Republic of Congo from moving from a potentially rich country to a rich country.

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